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SOUTH VIETNAM: The government's pacification statistics indicate that security declined significantly in both urban and rural areas during the first five months of the Communist offensive.

The statistics are derived from the government's Hamlet Evaluation System (HES), an admittedly imprecise measuring tool, but one that provides a general picture of pacification trends. In March, just before the offensive was launched, the vast majority of the 6.5 million urban residents in South Vietnam were listed as living under full or partial government control. By August, HES statistics show that the Communists had greater access to almost half a million of these people. Such persons live mostly in the suburbs around such cities as Hue, Da Nang, and Qui Nhon and do not include some 42,000 people in district towns such as Loc Ninh and Dong Ha that have come under full Communist control.

In the countryside, the deterioration of security has been more pronounced. In March, HES listed some 11.5 million rural residents as under full or partial government control; by August this figure had dropped almost a million. Concurrently, the number of people living under full or partial Communist control more than doubled from above 800,000 to over 1.7 million.

Close to two million rural and urban residents now either live in less secure conditions or are under greater Communist control than they were in March of this year. The effect on the government's pacification program undoubtedly will be severe, especially since several hundred key pacification cadre and civilian officials have been killed, captured, or forced to move elsewhere. In Binh Dinh Province, where the fighting has been very heavy, for example, no village governments are currently operating in the northern three districts and only 36 of the remaining 55 elsewhere in the province

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are functioning. This disruption of local leadership, together with the increased Communist presence, will make the government's job of rebuilding its position in the countryside long and difficult.

[REDACTED]

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WEST GERMANY: [REDACTED]

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Living costs in September rose by 6.2 percent over September 1971, the highest increase since the Korean War. Business, labor, and government agree on the pressing need for anti-inflationary action, but there is no consensus on the measures to be taken. At a recent meeting of the Concerted Action Committee, the chairman of the German Trade Union Federation favored increased competition to restrain price increases, while the president of the German Federation of Industry called for wage and government budgetary restraints. The government has moved to increase price competition by liberalizing quota restraints on imports from Eastern Europe, but the effects probably will be negligible. The Brandt government [REDACTED]

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[REDACTED] has steered clear of prescribing wage guidelines.

As in the past, the Bundesbank has had to assume principal responsibility for anti-inflationary measures. The bank recently raised its discount rate to 3.5 percent and the rate for loans secured by collateral to five percent. Although reaction has been generally favorable, there are some fears that the move may precipitate new money inflows. Bundesbank President Karl Klasen has warned that if prices continue to rise sharply the bank will take additional restrictive measures. [REDACTED]

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JAPAN: Differences within the Japanese Government are delaying a final decision on measures aimed at forestalling another yen revaluation.

Tokyo had hoped to announce a number of new measures this week but agreement has not yet been reached among the key ministries involved. The Ministry of International Trade and Industry strongly opposes a Ministry of Finance proposal to impose an export surcharge and to lift import quotas on some items, preferring instead to increase existing quota levels. The Ministry of Agriculture, meanwhile, is objecting to a proposed easing of restrictions on agricultural imports and to a 20-percent across-the-board tariff reduction. Despite these differences, a compromise is expected soon because Tokyo would like to announce the program before the parties to the General Agreement on Tariffs and Trade open talks on 1 November. In any event, the program will emphasize liberalizing imports rather than restraining exports.

The measures probably will not have much impact on this year's trade surplus, which is continuing to swell. Preliminary data indicate that the trade surplus for September reached \$950 million, the second highest monthly level this year. This would put the surplus for the first nine months of 1972 at about \$6.4 billion, 21 percent higher than for the comparable period last year. Under these circumstances, Tokyo realizes that it will continue to face strong pressures for revaluation and, although the program now under discussion may provide some breathing space, additional measures probably will be required. Prime Minister Tanaka, for example, recently stated that he would reconsider the need for an export surcharge if these measures fail to reduce pressures on the yen. Strong measures, including revaluation, however, are not likely to be implemented until after Diet elections, which are expected later this year.

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ROMANIA: A near-record wheat crop has been harvested this year, but prospects for 1973 are threatened by recent heavy rains and flooding.

Excessive rainfall during the past six weeks has slowed all field work. The major agricultural region along the Danube River has been especially hard hit by river flooding and standing water in many fields. If harvesting of forage crops, vegetables, potatoes, and grapes is further delayed, there will be significant losses. The important corn crop, however, probably will not be as badly damaged if there are sufficient facilities to dry it artificially.

If the rains persist, next year's wheat crop could suffer a very serious setback. Sowing of winter wheat, normally completed by 20 October, has barely started in some areas. Good planting conditions during the next two to three weeks are essential; the onset of an early winter would be disastrous for wheat planted after 1 November. [REDACTED]

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SRI LANKA: Results from parliamentary by-elections represent an apparent decline in popular support for the Bandaranaike government.

The main opposition party, the right-of-center United National Party (UNP), narrowly won three of four by-election contests held in different parts of the country last Monday. Prime Minister Bandaranaike's Sri Lanka Freedom Party (SLFP) had won three of these four seats in general elections in May 1970. In the by-election it won, the SLFP's victory margin was only half as large as in 1970.

The main cause of public disenchantment with Mrs. Bandaranaike's three-party coalition government, which took power in May 1970, has been its failure to halt the economic decline that has afflicted the country for years. The by-election results will buoy the spirits of the UNP but will have little impact on the coalition's hold on power. As long as it retains its legislative majority--still about three fourths of the seats--the government is not constitutionally required to hold new general elections until May 1977.

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LAOS: The adjournment of the National Assembly on schedule yesterday ends for now efforts by right-wing elements in the legislature to force government changes. The assembly voted on 9 October to remain in session for another month to permit the complete interpellation of cabinet ministers, but the King quickly rejected the requested extension. Members of the powerful Sananikone family and their followers for several months had been threatening a vote of no-confidence in Prime Minister Souvanna Phouma's government unless he made some key cabinet changes. They now will have no legal forum for mounting any further challenge to Souvanna until the assembly reconvenes next May. [REDACTED]

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COLOMBIA: Student demonstrations against university reforms have assumed a more serious character since the death of a young protester during a clash with police last week. Marxist youth organizations have been quick to unite in protest against "repressive" acts by forces of the government. Relatively mild disturbances had been under way at campuses throughout the country since August, when the Pastrana administration began systematically expelling agitators from National University. The sudden intensification of the protests will require a stronger police reaction that may prove awkward for Pastrana but in the long term may contribute to the law-and-order image that he seeks to build for his government. [REDACTED]

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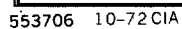
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CAMBODIA: Khmer and Vietnamese Communist forces in the past few days have occupied a number of government positions along Route 2 and now control much of that highway between the town of Takeo and the South Vietnam border. The Communists probably are trying to expand their supply corridor that runs through southern Takeo Province into the South Vietnam delta. Most Cambodian troops have withdrawn from the Route 2 area, and occasional South Vietnamese crossborder operations present the only real impediment to Communist logistical activities in this sector. Meanwhile, government troops in the northwest are still making slow progress in their efforts to reopen a short stretch of Route 5. If and when the highway is cleared, it will take several weeks to repair bridges on the road that have been badly damaged by the Communists. [REDACTED]

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DENMARK-EC: Copenhagen is again limiting its currency's fluctuation to the narrow band established by the EC in March. The Danish people's overwhelming support of the referendum on EC entry and the current strength of the kroner probably encouraged the government to act at this time. Copenhagen withdrew from the agreement after London floated the pound sterling on 23 June. Both the UK and Ireland, which withdrew at the same time, may follow suit before their memberships in the Community become official on 1 January 1973. [REDACTED]

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